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Perspective

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Other Countries Are Not Paying Their Fair Share of the Cost of Biopharmaceutical Innovation – What Can the United States Do to Change That?

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Introduction

The U.S. has long been the global leader in biopharmaceutical innovation, investing in research and development that has led to breakthrough treatments and life-saving medications that have extended both the length and quality of life of patients around the world. Yet many developed countries pay only a fraction of what Americans do for these medical miracles-effectively leaving the U.S. to shoulder the cost. This system of global freeriding is plainly inequitable and places a disproportionate burden on American patients and the American healthcare system.

Understanding the Roots of the Problem

This is not a new or surprising issue-it is well established that the U.S. generally pays significantly more for patented prescription medications than other developed nations.[1] The question is why and what can be done about it?

The principal reason for the disparity in biopharmaceutical pricing is that governments in other developed countries use price control schemes to limit prescription drug prices while the U.S. relies upon a competitive free-market economy that incentivizes innovation and rewards value. Innovative biopharmaceutical companies determine list prices for new therapies at launch in the U.S. and then negotiate the actual price paid with intermediaries across the health care system to optimize patient access and health outcomes. This competitive system has led to net price decreases for prescription drugs in real (inflation adjusted) dollars in the U.S. every year since 2017.[2]

Most other developed countries employ some form of government price controls,

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many of which also use a system known as international reference pricing, which caps drug prices based on what some other group of countries pay. Not only does this type of system limit the revenue that is available for research and development of innovative new drugs, but it also allows more wealthy countries to link their prices to those from less wealthy countries-the very definition of not paying their fair share.

What a Country Pays Should Reflect Its Ability to Pay, Not Its Willingness to Pay

One of the major flaws of international reference pricing is that countries can manipulate the formula so that it is based on a government's political willingness to pay, rather than a country's economic ability to pay. It stands to reason that prices in lower-income countries should be lower than prices in wealthier nations due to different healthcare systems, constrained economies, and public health priorities. However, that same principal of fairness should prevent high-income countries from setting their prices by referencing prices in lower-income countries.

A more equitable solution would correlate drug pricing based on gross national income (GNI) per capita, which reflects a country's actual economic capacity. GNI per capita is the dollar value of a country's gross annual income, divided by its population. For example, according to 2022 data from the World Bank, the United States had a GNI per capita of $77,530, while Ireland, Norway, and Switzerland each have a higher GNI per capita-$91,950, $118,440, and $78,040, respectively.[3] Demonstrating the unfairness in international prescription drug pricing, a 2024 RAND study (also based on 2022 data) found that prices were significantly lower in Ireland, Switzerland and Norway than in the U.S., notwithstanding those countries' greater ability to pay.[4]

This system needs to change. Using actual economic indicators such as GNI per capita as guardrails to prevent freeriding would ensure fairer cost-sharing among developed countries. But how do we get there?

International Reference Pricing, including a “Most Favored Nation” Drug Pricing Model, would be disastrous for the U.S.

Before turning to solutions, we should address why bringing international reference pricing to the U.S. would not work and would have dramatically negative consequences for U.S. patients and the U.S. innovation ecosystem.

Some policymakers argue that that best solution to the unfairness of price controls in other countries is for the U.S. to copy them by applying international reference pricing in the U.S., setting prices based on the average or even the lowest level from among a group of other countries. This would be a dangerous mistake and proves the adage that two wrongs don't make a right.

Under international reference pricing, the U.S. government would essentially confront American innovators with an ultimatum: either raise prices in other countries (which price control systems prevent them from doing), withdraw or not launch medicines outside the U.S., or face a price control that caps U.S. prices at the average or lowest price in other countries. The flawed theory is that this would force biopharmaceutical companies to raise prices in other countries-and therefore lead those countries to contribute more to the cost of research and development.

This approach fails for at least two reasons. First, it assumes that biopharmaceutical companies can actually determine their prices under government price control systems in other countries. However, prices under most other governments price control systems are based on a government-run process or formula that results in a "take it or leave it" price, with the reality being that if the innovator walks away, the government could license its patent to a generic manufacturer.[5] This is why imposing international reference pricing in the U.S.

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would not increase other countries' contributions to research and development-it would simply create a draconian U.S. price control that would decimate biopharmaceutical innovation in the U.S.

That damage to innovation is the second reason why applying international reference price controls would be a losing proposition for the U.S. Prescription drug development is an expensive and high-risk endeavor, taking many years, numerous failures, and billions of dollars to bring a single new drug to market.[6] Consequently, biopharmaceutical companies rely on high returns from the few successful prescription drugs to fund the costly research and development needed for new treatments that will address patients' unmet medical needs.

Because implementing international reference pricing in the U.S. is unlikely to cause other countries to pay more of the cost of biopharmaceutical innovation, it would instead substantially reduce revenues from the U.S. available for research and development. The effect of this over time would mean fewer breakthroughs for patients in the areas of high unmet medical needs, including cancer, Alzheimer's, and rare diseases.

Rather than pursuing a policy that would damage U.S. leadership in medical innovation and inhibit the search for new cures, the U.S. government should go right to the cause of the inequity in prescription drug prices by calling out the current abuse of global freeriding and negotiating trade agreements that require other developed countries to pay their fair share of the cost of biopharmaceutical progress. The current global environment around trade presents a ready opportunity to do so.

Trade Negotiations Happening Now Present an Opportunity for the U.S. Government to Ensure Other Developed Countries Pay Their Fair Share for Biopharmaceutical Innovation

Applying direct trade pressure is the best solution for the international disparity in prescription drug prices. The U.S. government is uniquely positioned to negotiate policies that will lead other countries to contribute more to the cost of biopharmaceutical innovation. The Office of the United States Trade Representative, the Department of Commerce, and other appropriate federal agencies have tools in their arsenal to accomplish this. One such tool is to leverage trade policy to require other governments to strengthen their intellectual property protections, which directly impact the affordability and accessibility of prescription drugs. Another is that the U.S. government can call for trade agreements to address unfair pricing and reimbursement policies, including international reference pricing, that result in other countries' paying less than their ability to pay (measured in GNI per capita) would require. Finally, the U.S. government can push for greater transparency and procedural fairness in other governments' drug pricing systems.

A More Equitable System

The U.S. government should take advantage of the current moment in international trade relations to insist that other developed countries include prescription drug pricing reform as part of the trade negotiations that are now or will soon be underway. The goal should be to balance global access to life-saving medications with payment levels that equitably sustain investment in biopharmaceutical research and development. To this end, it is important to evaluate other countries' ability to pay based on their GNI per capita and use that as a benchmark for whether they are paying their fair share, as many currently are not. By doing so, the U.S. government can achieve trade agreements that stand the test of time, ensure other countries contribute equitably to the cost of research and development, and provide sustainable access to the medical miracles biopharmaceutical innovation creates.

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1. Conversely, Americans pay significantly less for generic medications compared to other developed economies. A 2024 study by RAND found that "U.S. unbranded generics, which account for 90 percent of U.S. prescription volume, were on average cheaper at 67 percent of prices in comparison countries." See Andrew Mulcahy et. al., International Prescription Drug Price Comparisons, RAND Corp. (Feb. 1, 2024), https://www.rand.org/content/dam/rand/pubs/research_reports/RRA700/RRA788-3/RAND_RRA788-3.pdf. This is because U.S. policy as set forth in the Hatch-Waxman Act balances intellectual property incentives for innovation with robust competition among generic manufacturers after patent expiration.
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5. For example, if an innovator declines to sell its product in Europe, Article 5 of the Paris Convention allows for compulsory licensing. Paris Convention for the Protection of Industrial Property, Article 5, 21 UST 1583 (Mar. 20, 1883).
6. A study by the Tufts Center for the Study of Drug Development found that it costs, on average, $2.870 billion (in 2013 dollars) to develop and obtain marketing approval for a new drug. In today's dollars, that soars to almost $4 billion per drug. Joseph DiMasi et. al., Innovation in the Pharmaceutical Industry: New Estimates of R&D Costs, Journal of Health Economics (May 2016), https://doi.org/10.1016/j.jhealeco.2016.01.012.

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